



The Speaker's Scholarship Plan: Too Good to Be True?

By George Runner

There's an old adage that if something sounds too good to be true, it probably is. When it comes to politics, it nearly always is.

Say for instance a politician told you he could lower the cost of sending your kids to college by 2/3rds. You'd probably respond, "Great. What's the catch?"

Your caution would be warranted. If a recent proposal by Speaker John Pérez becomes law, you might get some help with those soaring college fees, but don't count on your kids finding jobs once they get that diploma.

The Speaker's proposal, which he's dubbed the "The California Middle Class Scholarship," would impose a \$1 billion dollar tax hike on "out-of-state" businesses to provide financial aid for college students. The plan targets a 2009 tax formula change that only became effective last year—after California voters rejected a November 2010 ballot measure that aimed to repeal it.

In his own words, the Speaker claims: "We're closing that loophole that only benefits out-of-state corporations at the expense of the rest of us in the state. And we're taking that benefit and directing it to middle-class families who are struggling to put their kids through college."

Sounds good, right?

But there's always a "catch." This time there's at least three:

First, many "out-of-state" companies, including manufacturers, retailers and others, have significant investments in California and employ millions of Californians. Like it or not, imposing a billion dollars in new taxes—without offsetting tax cuts—will tempt these companies to downsize their California presence, costing countless jobs. Given that California already has the second highest unemployment rate in the nation, that's not the brightest idea.

Second, college costs aren't fixed. When Californians lack jobs, revenues fall. When revenues fall, politicians raise college fees. Imposing new taxes on struggling job creators will only make

this cycle worse, increasing college fees further. Plus, if the state's revenue picture gets worse, the Speaker's program could be cut too.

Third, taxpayers are footing the bill, but California's hostile business climate increasingly means college graduates must leave California in order to find jobs. The Speaker's "middle class scholarship" won't create middle-class jobs in California; instead, the tax hike will educate the future workforce of Arizona, Oregon and Texas, to name a few.

Don't get me wrong. Education is vital to the future of our state and a college education significantly improves one's prospects of finding a job. California's problem, which stems from our high tax and onerous regulatory climate, is that there simply aren't enough jobs.

This scarcity means that college students with significant debt end up with jobs that only require a high school diploma. They displace the kids who only have high school diplomas. So now those kids must also go to college to have a chance of getting a job that only requires a high school diploma.

For California to succeed, our politicians need an education too. Even a basic understanding of economics would help them understand that rising college fees are a symptom, not the source of California's problems. To solve the real problem, we need to attract middle-class jobs back to California, rather than drive them away. A billion dollar tax increase is not the solution.

And who knows? With good jobs, Californians might even be able to afford to send their kids to college without Speaker Pérez's help.

Elected in November 2010, George Runner represents more than nine million Californians as a member of the State Board of Equalization. He recently founded the non-profit Californians for Jobs. For more information, visit www.boe.ca.gov/Runner.